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ANNUAL REPORT

year ended August 31, 1968



KELSEY-HAYES CANADA LIMITED

KELSEY- HAYES CANADA LIMITED

DIRECTORS

Frank P. Coyer, Jr.
J. G. Crean
W. A. Harrison
William Henry
Geo. W. Kennedy
W. D. MacDonnell
W. C. McIvor
L. N. Savoie

OFFICERS

W. D. MacDonnell — Chairman of the Board
L. N. Savoie — President
W. C. McIvor — Vice-President & Secretary-Treasurer
G. Y. Meyer — Vice-President - Manufacturing

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
Toronto, Montreal, Winnipeg & Vancouver

AUDITORS

Touche, Ross, Bailey & Smart

FINANCIAL HIGHLIGHTS

	1968	1967
Net Earnings	\$1,042,000.00	\$1,049,000.00
Earned per share95	.95
Working Capital	5,125,000.00	5,440,000.00
Current ratio	2.1	2.1
Per share dividends declared50	.50

LOCATIONS

Head Office — Windsor, Ontario
Windsor Division — Windsor, Ontario
Conroy Division — St. Catharines, Ontario
Woodstock Division — Woodstock, Ontario

TO THE SHAREHOLDERS OF KI

The reorganization of our operations, completed in 1967, which created Kelsey-Hayes Canada, Limited, is yielding the results sought by the move. However, the anticipated improvements in earnings was not realized in 1968 primarily because of a strike at one of our major customers and a two month strike at our Wheel Division in Windsor. Sales for the year were \$40,499,254, as compared with \$37,375,978 last year. Operations at the Conroy and Woodstock Divisions were at a high level, but volume at Windsor decreased due to the production lost as a result of the strike. Earnings of \$1,041,749 were approximately the same as last year's \$1,048,902.

CAPITAL EXPENDITURES

Capital expenditures amounted to \$1,263,000 and reflect primarily expenditures to increase capacity at the Eureka Foundry in Woodstock. Depreciation provided was \$1,444,516 in 1968, up from \$1,325,444 in 1967. The increase reflects primarily additions to capital assets during the year and should continue at approximately this level subject to major changes in capital expenditures. The estimated capital expenditures in our 1969 fiscal year will be about \$1,500,000.

EY-HAYES CANADA LIMITED

LONG-TERM DEBT

The regular payment of \$500,000 on the 5¾% First Mortgage Serial Bonds, which matured on October 1, 1967, was made. There were no other changes in long-term debt during the year.

LABOUR CONTRACTS

Our labour contract for our Windsor Division, negotiated during the year, is for three years. Contracts at our Conroy and Woodstock Divisions expire early in 1969.

OUTLOOK

We look forward to the year ahead with optimism. The automotive industry is presently producing at record levels and forecasting new highs for current model production. Reflecting this forecast, our sales should show a satisfactory increase, and together with continued improvement in our operations should result in improved earnings over last year.

We wish to express our appreciation to our employees for their contribution during the year.

Respectfully Submitted,

W. D. MACDONNELL
Chairman of the Board

L. N. SAVOIE
President

KELSEY-HAYES

(Incorporated under The

BALANCE SHEET AS

(with comparative

ASSETS

	<u>1968</u>	<u>1967</u>
CURRENT ASSETS		
Cash and short term notes	\$ 981,598	\$ 2,094,004
Accounts receivable	3,154,894	3,175,482
Due from affiliated company	27,300	—
Inventories at the lower of cost (First-in first-out method) or market	5,315,917	4,269,923
Income taxes recoverable	5,000	14,074
Special tooling for current production	96,624	394,197
Prepaid taxes, insurance, and other expenses	271,094	231,088
TOTAL CURRENT ASSETS	<u>9,852,427</u>	<u>10,178,768</u>
SPECIAL REFUNDABLE TAX	102,931	102,475
PROPERTY, PLANT, AND EQUIPMENT — at cost		
Land	422,176	365,146
Buildings and land improvements	5,604,138	5,543,398
Machinery and equipment	18,546,246	17,760,959
	<u>24,572,560</u>	<u>23,669,503</u>
Less accumulated depreciation	9,790,099	8,681,893
NET PROPERTY, PLANT, AND EQUIPMENT	<u>14,782,461</u>	<u>14,987,610</u>
TOTAL ASSETS	<u>\$24,737,819</u>	<u>\$25,268,853</u>

On behalf of the Board

W. C. McIVOR, *Director*

L. N. SAVOIE, *Director*

AUDITOR'S REPORT

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at August 31, 1968 and the statements of net earnings, earnings retained for use in the business and summary of changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Toronto, Ontario,
October 2, 1968*

ANADA LIMITED

(Ontario Corporations Act)

AUGUST 31, 1968

(figures for 1967)

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	<u>1968</u>	<u>1967</u>
CURRENT LIABILITIES		
Accounts payable	\$ 2,608,952	\$ 2,677,064
Due to affiliated company	—	80,934
Payrolls and taxes withheld from employees	436,614	442,291
Other accrued expenses	1,044,427	900,718
Dividend payable	137,500	137,500
Current portion of long-term debt	500,000	500,000
TOTAL CURRENT LIABILITIES	<u>4,727,493</u>	<u>4,738,507</u>
LONG-TERM LIABILITIES		
Deferred taxes on income	3,193,531	3,700,000
Long-term debt (Note 1)	8,500,000	9,000,000
Other	47,700	53,000
TOTAL OTHER LIABILITIES	<u>11,741,231</u>	<u>12,753,000</u>
SHAREHOLDERS' INVESTMENT		
Capital stock		
Authorized — 1,500,000 shares without par value		
Issued — 1,100,000 shares	1,125,000	1,125,000
Earnings retained for use in the business (Note 2)	7,144,095	6,652,346
TOTAL SHAREHOLDERS' INVESTMENT	<u>8,269,095</u>	<u>7,777,346</u>
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	<u>\$24,737,819</u>	<u>\$25,268,853</u>

THE SHAREHOLDERS

In our opinion these financial statements present fairly the financial position of the company as at August 31, 1968 and the results of its operations and the summary of changes in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

KELSEY-HAYES CANADA LIMITED

STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

FOR THE YEAR ENDED AUGUST 31, 1968

(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Balance at beginning of year	\$ 6,652,346	\$ 6,153,444
Net earnings for the year	<u>1,041,749</u>	<u>1,048,902</u>
	7,694,095	7,202,346
Dividends paid and payable	<u>550,000</u>	<u>550,000</u>
Balance at end of year (Note 2)	\$ <u>7,144,095</u>	\$ <u>6,652,346</u>

STATEMENT OF NET EARNINGS

	<u>1968</u>	<u>1967</u>
Net sales	<u>\$40,499,254</u>	<u>\$37,375,978</u>
Net earnings before providing for the following	<u>\$ 4,503,228</u>	<u>\$ 4,317,910</u>
Deduct		
Depreciation of plant & equipment	1,444,516	1,325,444
Employees' pension plans	392,367	374,244
Interest on long-term debt	<u>564,596</u>	<u>449,320</u>
	2,401,479	2,149,008
Net earnings before income taxes	2,101,749	2,168,902
Income taxes	<u>1,060,000</u>	<u>1,120,000</u>
Net earnings	\$ <u>1,041,749</u>	\$ <u>1,048,902</u>

SUMMARY OF CHANGES IN WORKING CAPITAL
FOR THE YEAR ENDED AUGUST 31, 1968
(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
SOURCE OF WORKING CAPITAL		
From Earnings		
Net earnings for the year	\$1,041,749	\$1,048,902
Depreciation	1,444,516	1,325,444
Decrease* (increase) in deferred income taxes	506,469*	1,491,000
	<u>1,979,796</u>	<u>3,865,346</u>
Proceeds from sale of 6¾% first mortgage bonds	—	3,054,600
	<u>1,979,796</u>	<u>6,919,946</u>
APPLICATION OF WORKING CAPITAL		
Additions to property, plant, and equipment		
less net carrying value of disposals	1,239,367	4,599,167
Cash dividend declared	550,000	550,000
Payment of special refundable tax	456	60,331
Applied on reduction of 5¾% serial bonds	500,000	500,000
Miscellaneous	5,300	—
	<u>2,295,123</u>	<u>5,709,498</u>
Decrease* (increase) in working capital	315,327*	1,210,448
Working capital at beginning of year	5,440,261	4,229,813
Working capital at end of year	<u>\$5,124,934</u>	<u>\$5,440,261</u>

NOTES TO FINANCIAL STATEMENTS AS AT AUGUST 31, 1968

- Long-term debt (less current portion) \$8,500,000
5¾% Serial Bonds maturing serially on October 1, in each of the years 1969 to 1975
Authorized \$5,000,000
Issued and outstanding after deduction of amount included in current liabilities \$3,500,000
6¾% First Mortgage Bonds maturing \$500,000 on October 1, in each of the years 1972 to 1975 and \$1,000,000 on October 1, in each of the years 1976 to 1978 5,000,000
\$8,500,000
- The provisions of the 5¾% Serial Bonds and the 6¾% First Mortgage Bonds impose certain restrictions on the payment of dividends. At August 31, 1968 earnings retained for use in the business of approximately \$2,967,000 were free from such restrictions. The net current assets, as defined, exceeded such restrictions by approximately \$2,624,000.
- Unfunded past service costs under pension plans for employees are being amortized over a period of years and are estimated at approximately \$1,875,000 at August 31, 1968.
- Remuneration paid by the company during the year to senior officers of the company amounted to \$164,750.

**KELSEY-
HAYES
CANADA
LIMITED**

309 ELLIS AVENUE, EAST • WINDSOR, ONTARIO

